

RSM

DDCI REMARKS TO THE
BOSTON COMMITTEE ON FOREIGN RELATIONS

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Good evening, I really had a great opening line had I given this presentation after we ate. I was at a dinner several months ago when Ann Chennault, the wife of the famous Flying Tiger General, stood up after dinner and said, "I think after-dinner speeches ought to be like mini skirts--long enough to cover the subject, yet short enough to be interesting."

I'd like to share with you things in the world that we are particularly interested in right now. We certainly spend a great deal of time in our business trying to analyze the intelligence that we collect to put it into a product for our various customers--whether they are policymakers or members of Congress. We also spend a fraction of our time--less than 2 percent--in special activities or covert actions. Unfortunately, that 2 percent attracts about 100 percent of the noise level that we suffer. But I do want to assure you that the majority of our effort is spent in the function of carrying out intelligence gathering and analysis for our country.

If you look at the Agency itself, you find that at any given moment about 45 percent of our analytical manpower is devoted to the Soviet Union. Indeed it ought to, because the Soviet Union is the only nation that can literally wipe us off the face of the earth.

We spend a great deal of time trying to stay abreast of their present weapons systems and their research and development activities so that we can build counter forces.

At one time our biggest problem concerning the Soviet Union was just worrying about their military capability. But over the years they've built up not only a very large strategic nuclear force but also a conventional force second to none in the world. With those capabilities they have now ventured forth in the world because they have a position of power which permits them to control and interdict various searoutes of communication or transportation and trade. That capability has prompted them to pursue what Khrushchev said back in 1961--it will not be our nuclear weapons that undo you, but those national Communist movements that will grow around the world. And sure enough we see that the Soviets are very active in many places around the world particularly at key choke points.

They moved early on into Egypt--a beautiful blocking action on the Suez Canal. They lost out there but then began to upset things in Ethiopia, in the Yemen, and in Somalia. We see them filling up Qadhafi's coffers to enhance Libya's military capabilities which at one time, until the union recently with Morocco, supplied the power that put the heat on Morocco and threatened Gibraltar. We also saw them move into Afghanistan which brought them 500 miles closer to the Indian Ocean and the to the searoutes for most of the world's oil. We've seen them take over the American bases in South Vietnam at Cam Ranh Bay and Da Nang. From those bases they can cover the South China Sea and the way down to the Straits of Indonesia.

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years we've watched them sit in Cuba. And now through their proxy Cuba they are backing Nicaragua. The Cuban and Soviet presence in Nicaragua imposes a threat to other Central American countries. The military weapons being imported into Nicaragua far exceed anything Managua needs for defensive purposes.

If you look at Nicaragua during the heyday of Somoza, they had 9,000 men in arms and then when the war reached the highest point with the Sandinista, Somoza was able to garner about 15,000. Today there are 49,000 Sandinistas in the regular army and another 60,000 in the militia. They've brought in all kinds of weapons from the Soviet Union including radars, SA-7 missiles, and recently, the MI-24 helicopter gunship which is a significant upgrading of their capabilities for ground attack. Central America, of course, draws a great deal of media attention to the Agency. But Nicaragua is another step in threatening the Panama Canal and the Caribbean. If you are interested in trade at all, you realize that about one third of all the United States trade goes through the Caribbean. So it is an area of the world that can't be treated lightly even though it's rather close to home.

We also spend a great deal of time following the leadership in Moscow. That is probably the greatest amusement anyone can ever have. Certainly in recent years we watched the reins of power in the Kremlin switch from Brezhnev to Andropov and now to Chernenko; and we wondered, how well Chernenko's administration would work. We believe they are operating under a collective type leadership where Gromyko worries about foreign policy, Ustinov defense; while

Chernenko worries about running the party which he knows so well. Then as Chernenko became ill the death watch was set up and let me assure you we no longer try to predict when any leader is going to die. We predicted Mao would die 20 times before he did and then we learned you shouldn't try to predict the demise of anyone. But we follow very closely the health and well being of world leaders and Chernenko is certainly one of them.

We watch with a great deal of interest as the youth of the Soviet Politburo begin to rise in the bureaucracy. We saw Gorbachev come storming up to the number two position with Romanov close behind. We saw Ogarkov pressuring on the military side and suddenly he was tapped down and stripped of his position. Now Ustinov is very ill and Gorbachev has moved down in the pecking order. At different functions Gorbachev is either not there or down in the lower posts of protocol. Of course all these changes make Kremlinologists wonder what is really going on in Moscow and I'm not sure any of them can really tell. It certainly is a ballgame that draws a great deal of attention regardless of what happens; so we don't think there will be any startling change to the Soviet foreign policy or their way of life as we know it today.

We also look at the Soviet economy and we do that with some amazement. Economic intelligence is a big seller these days. It sort of boggles the mind that a country like the Soviet Union can invest some 12 to 14 percent of their gross national product in defense, when over the last 15 years, the country has only grown at a rate of around 2 to 3 percent at most. We know of their very

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difficult problems in agriculture and we wonder how they sustain their defense build-up. It is more or less a marvel. Yet they are once again increasing defense spending as you saw in the newspapers this morning. The overall public figure the Soviets cite for defense spending is rather low; but that is because Moscow hides such things. At any rate, the whole infrastructure of the Soviet Union inside, as well as their adventurism outside and through their surrogates draws our attention.

We look at the economy of every nation of the world because the interests of the United States are truly global. We have to know what is going on in places like the British channel as much as we know about what is going on in Moscow.

If you look at the world, you realize that the lesser developed countries, as we call them kindly these days, draw a great deal of concern. Together they are about \$750 billion in debt. That causes a great deal of problems. The large debt burden cuts down on their ability to import, which prevents them from taking raw materials, fashioning them into exports and compounds their trade problem. Moreover, in order to apply for IMF credits or even credits from various international banks these less developed countries have to take certain austerity measures. Those austerity measures usually start with the man in the street; and when the price of bread goes up and he doesn't have the money he had yesterday, that man becomes uneasy. The result is often political unrest, perhaps a coup or

changes in government. Such political and economic problems provide a seeding ground for the Communists to move in and cause trouble. So we keep our finger on the pulse economically around the world.

Moreover, we don't just study the Third World economies; we also pay attention to our allies as well--the Western nations as well as those in the Far East. In a way, our allies are more of a problem to us today than our enemies. And the reason for that is that they are now very competitive with us. Markets that used to be dominated by the United States across a broad spectrum of needs and wants around the world are now targeted for by the Europeans and the Japanese. Our people in Detroit have learned the hard way what the Japanese can do.

The Japanese have also put us on notice that they are coming after us in the computer industry, which represents some \$300 billion in world trade by the 1990's. We see the Japanese already very much into the microchip business and in fact a number of the leading U.S. electronic manufacturers will get their chips, particularly their high-memory chips, from Japan. The Japanese are beginning to venture forth into the commercial airliner business where they are talking with Boeing about building a plant in Japan. When you hear that, it makes you think of what happened in France. The French decided that they were sick and tired of seeing Boeing aircraft in every airport in Europe they decided to build the Airbus. The government of France put \$1.2 billion into the development of the Airbus. They put another \$1.3 billion into marketing it. They subsidized the company by \$400 million.

and they offered 3 percent credit to any nation buying the Airbus. We in turn, in our beautiful free enterprise system, just turn to Boeing and say "sic em." That is a problem and we see it all over the world as the Western nations grow in technology. Why are some countries ahead of us in certain technologies? One reason may be their the school systems; although thousands of foreign students are still coming to the U.S. universities to learn about the most advanced technology we have. They use the universities for research and that leads me to a favorite problem that we have and that is known as "Technology Transfer."

Our technology goes to other Western nations but also ends up in the Soviet Union. We did a study not too long ago of what we termed "military significant items" in the Soviet portfolio. We found that 70 percent of those items came from the West and most of them came from the United States. Some of this hardware was classified and some was unclassified. When you have an organization such as NASA, with some of the highest technology we have, that is virtually in an open library, anybody can end up acquiring that technology.

However, we also see the Soviets using routine, age-old KGB operations to acquire the technology from the United States firms. In the late 70's and early 80's we identified some 30,000 items that the Soviets had acquired. Most of them were obtained illegally through espionage operations or illegal trade diversions. We found 400,000 documents, technical documents, on how to build things in the Soviet Union.

Then we began to look at the hardware and realized that the gyros and the ball bearings in their SS18, the largest missile systems in the world, was made in the U.S.; their look-down-shoot radar is a copy of ours. When we first saw the signals coming out of their AWACs radar on their IL76 Soviet aircraft, we thought it was ours and unfortunately it was. No matter where you look from the fiberoptics in their laser range-finder on their tanks to the their missile and propulsion systems, you see the imprimatur "made in the United States."

The Soviets operate and control some 300 companies around the world. There are 30 such firms in the United States alone. They enjoy all the privileges of a U.S. person and, therefore, can trade with other companies. Our export laws only apply to exports. So through trade diversions, through dummy firms, through false manifests, they are able to get a great deal of our technology. In recent years we and the FBI now have put on a full court press on Customs as well as with U.S. companies in order to try to stop this flow. This flow results in a \$300 billion a year defense program because we end up fighting ourselves. There was an article in a French magazine about a year ago that said only the U.S. could afford two defense programs, its own and that of the Soviet Union. The article was on the tech transfer. So it is a very successful program.

Maybe it is the price we pay for an open society. But the key is that most U.S. companies are anxious to do the right thing. We need to develop an awareness of these companies that when they

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the material which is a COCOM restricted to some company, they ought to know who that company is and its record, because the company could be a diversion mechanism for the eastern bloc or Soviet Union.

On top of worrying about the political scene and economic scene around the world, we also follow transnational issues such as nuclear proliferation. Nuclear proliferation becomes a problem because as the technological capabilities of a country are enhanced, they may be able to build bombs. While we can agree to control and have safeguards, you always have to worry about the country that is going to lose a bomb or not safeguard it so that it falls into the hands of a terrorist. What will the U.S. Government do when a terrorist groups claims that they have a nuclear weapon in Boston or New York City and they want something in return for it? So we keep track of what nations are capable of building a bomb. It's difficult because they don't have to test a bomb. They can develop a nuclear device to a level of confidence sufficient to know it will work.

When we are done worrying about nuclear proliferation and the capabilities a country has to build weapons, then we have to worry about terrorism itself.

Terrorism has taken on a new trend. At one time terrorism was confined to only a small number of countries. American businessmen were the main targets because they were the bankers. Any time a terrorist organization ran out of funds, they would kidnap the local

American businessman, hold him for ransom, and there get their funding for the next fiscal year. In the past decade, American businesses overseas paid \$125 million in ransom.

However, now terrorism has taken on new trend and that is to blow up Americans wherever they are. Americans are being targeted and American installations are being targeted. Instead of being localized terrorists groups, the terrorists have split in two ways. One, they moved from the large organizations which were fairly easy to penetrate because they were large bureaucracies and we could usually get a feel for their actions and be in a position where we could thwart an upcoming terrorist attempt. But they are now down to a "mom and pop" organization, they are almost family-type sects. And unless you are member of the family, you don't get in. That makes it very difficult to penetrate.

On top of that, we have several nations of the world that have adopted a foreign policy of exporting terrorism. Iran leads that list. Iran is exporting terrorism around the world against Americans. Libya is another one and, to a lesser degree, Syria and North Korea. These nations use the cover of the diplomatic pouch to move explosives and weapons to any country in the world. From their embassy they are able to feed out to terrorists, who come in under forged passports, the equipment and explosives they need. So no longer is it a problem for terrorists to carry these explosives through customs checks at airports.

Until the nations of the world unite against those nations that support terrorists, the problem will continue. By uniting, I mean to take whatever diplomatic and economic efforts are necessary to ostracize those nations and not permit them to be members of the world commonwealth. What we fear is that terrorism may be exported to mainland U.S.A.

The other problem we have is narcotics. There were 41 million Americans last year who spent \$100 billion to acquire illegal narcotics. Witnessing the inability to interdict arms firsthand, I can tell that trying to interdict narcotics is an awesome task. As with terrorism, certain states and governments support narcotics traffic. We have high political figures and military figures around the world that are in on the take. The business is so lucrative and the profits so extreme, that the traffickers will buy an airplane for one flight and then leave the airplane; or they may buy a boat and bring it in from Colombia or the Caribbean and just leave it where it docks because they do not need it anymore. Somehow this nation has to put a squeeze on that because the addiction goes to the very soul and fabric of any society and it can make it pretty sick.

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